



Annual Report 1972 · H. Paulin & Co., Limited

DIRECTORS

*Louis S. Brody, Toronto
Ayton G. Keyes, Ottawa
*Arthur Paulin, Toronto
Harry Paulin, Toronto
Stanley F. Paulin, Toronto
*Vincent P. Reid, Q.C., Toronto
Sydney L. Robins, Q.C., Toronto

OFFICERS

Harry Paulin
Arthur Paulin
Stanley F. Paulin
Joyce Mair

HEAD OFFICE

AUDITORS

LEGAL COUNSEL

TRANSFER AGENT AND REGISTRAR

SHARES LISTED

Retired Executive
President, Keyes Investments Limited
H. Paulin & Co. Limited
H. Paulin & Co. Limited
H. Paulin & Co. Limited
Director, Cochran Murray Limited
Partner, Robins and Robins
*Member of the Audit Committee

Chairman of the Board
President
Vice-President, Secretary
Treasurer
55 Milne Ave., Scarborough, Ont.
Touche Ross & Co., Toronto, Ont.
Robins and Robins, Toronto, Ont.
Canada Trust Company,
Toronto, Vancouver, Edmonton
and Winnipeg
The Toronto Stock Exchange



Annual report 1972 • H. Paulin & Co., Limited

Financial Highlights	1972	1971
Sales	\$10,236,510	\$ 8,851,867
Net Profit	\$ 653,857	\$ 453,543
*Earnings per Share	\$.62	\$.43
*Shareholder's Equity per Share	\$ 4.21	\$ 3.03
Working Capital	\$ 3,783,677	\$ 2,733,491

*Based on 1,050,000 shares outstanding



To our Shareholders

It is a pleasure for me to submit our first annual report since the public offering of the shares of your Company in June of 1972.

For the fiscal year ended December 31, 1972, your Company recorded the highest sales and earnings in its 53 year history. Sales increased by 15.6% to \$10,236,510 while net earnings advanced by 44% to \$653,857 over the previous year.

This record performance can, for the most part, be attributed to greater efficiencies in the production and distribution operations resulting in improved operating margins. The installation of new equipment in several divisions will be a continuing factor in this respect.

I am confident that a continuation of the general level of economic activity now being enjoyed in Canada will support a similar sales increase in 1973. However, in this period of rapidly rising costs, profits will be influenced by management's ability to maintain normal margins while at the same time remaining competitive in its various product lines. Our efforts to improve productivity include planned expenditures for capital equipment amounting to \$330,000. Increased output will be facilitated by the addition of 17,000 square feet of plant space to be occupied in May, 1973.

Our program for future expansion includes entry into new fastener markets by internal growth and by suitable acquisitions. Our recently formed Construction Fastener Division is now functioning and our Stainless Steel Division is being enlarged. We have added new precision fastener products that will be sold to the electronic, aircraft and communications industries.

On behalf of the Directors and Officers, I would like to express our sincere appreciation to our employees without whose dedicated efforts this record-breaking year could not have been achieved.

Arthur Paulin

May 7, 1973

The Company



In 1920, Mr. Harry Paulin, the founder and Chairman of the Board of the Company, commenced business as a distributor of automotive and cycle parts in a store located on Dundas Street in Toronto. Today, the Company occupies over 130,000 square feet for manufacturing, distribution and head office at Toronto and in addition has warehouse stocks in Montreal, Winnipeg, Edmonton and Vancouver.

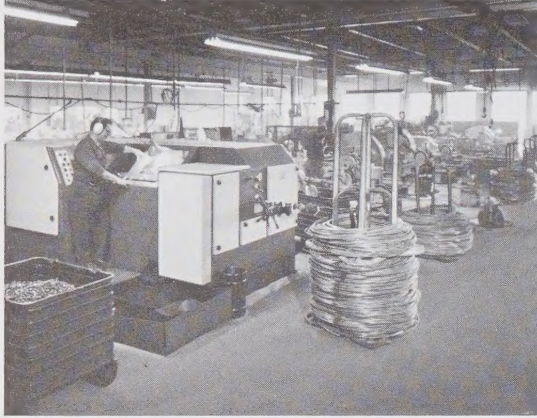
H. Paulin & Co., Limited and its subsidiaries, Capital Metal Industries Limited and Automotive and General Export Co. Limited, manufacture and distribute industrial fasteners, automotive parts, bolts, nuts, screws and fluid system components. In addition to supplying over 15,000 sizes of standard fasteners and fittings from stock, we manufacture custom cold headed products, metal stampings and screw machine products for the automotive, agricultural, electronic and appliance industries.

Our business philosophy is to provide a complete fastener service to our customers. Broad inventories are maintained at the Toronto Plant and at the Company warehouses in order to make prompt "off-the-shelf" deliveries. We are proud of our highly skilled craftsmen, specialists in metal forming, and of our modern equipment that enables us to produce standards and specials quickly and efficiently. Our trained sales force is able to assist our customers in the design and selection of the most economical assembly components.



H. Paulin & Co. – original location, 1920

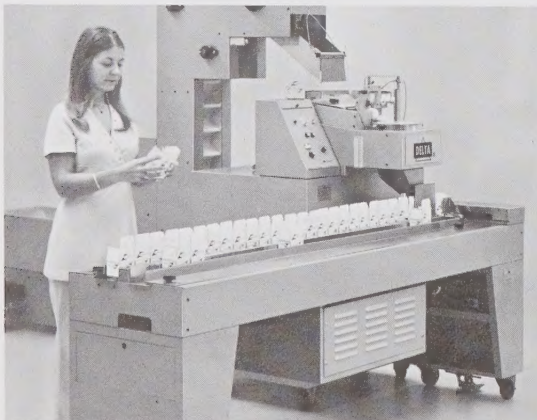
Sales divisions of the Company service industrial distributors, hardware wholesalers, original equipment manufacturers, plumbing and heating distributors, the automotive aftermarket, construction supply distributors and other fastener consumers. Our business is diversified so that no single sales division accounts for more than 30% of total sales and no customer accounts for more than 5% of sales. In 1972, we serviced over 3,500 active customers in Canada. Our export business to the United States and world markets amounted to 8% of sales.



High-speed Cold Header



Automatic Screw Machines



Electronic counting and packaging

Operations

During 1972, 4 high-speed cold headers were added to our facilities bringing our single shift production capacity up to more than 2,500,000 bolts and screws. Because delivery schedules on new equipment are now running up to two years, we have had a continuous rebuilding program so as to keep all existing machines in production condition.

In the latter part of the year, we added a battery of thread cutting screw slotters giving us the largest production capacity for this product in Canada. Equipment now on order for wire drawing will enable us to use rod in screw production which will improve product quality and economy. In 1973, we will be installing new thread rolling and finishing machines to balance our increased heading capacity. The 17,000 square foot factory addition will provide urgently needed warehousing and operating space.

Our Fittings Division increased output by 17% over 1971. Equipment was added to raise to 1½" the maximum diameter of automatic screw machine products that we produce.

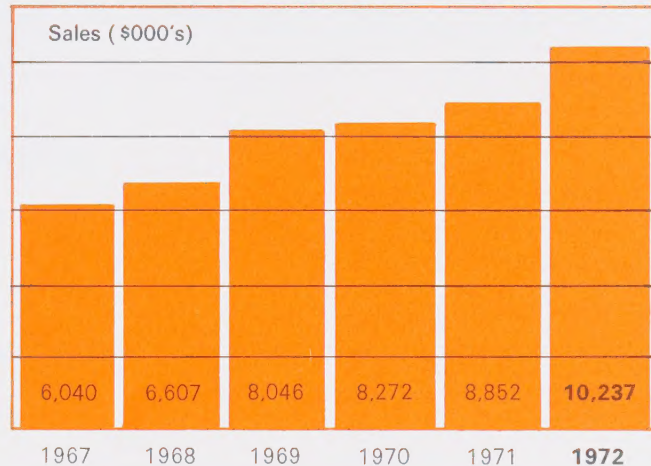
The Long-Lok Division which makes self-locking screws and nuts had a successful year registering a 90% sales increase. Part of this was accomplished by adding a fully automatic high-production unit which enables us to be competitive on very large volume orders.

Considerable effort was directed to mechanizing materials handling operations throughout the Company. Enlarged storage facilities were provided and new equipment was installed. This program will continue in 1973. Fully automatic electronic counting and packing machines have resulted in greater accuracy and productivity in the packaging department.

The shortage of skilled operators hampered manufacturing operations throughout the year. Active recruiting and on-the-job training are now helping to alleviate this condition and should enable us to raise production levels.

Marketing

The Fastener Industry is a reliable indicator of general economic activity and our Company results reflect the strong Canadian economy in 1972. All divisions of the Company showed increases during the year and helped us to continue the uninterrupted growth pattern of the past six years.



Automotive aftermarket

Continued acceptance of our "Papco" line of merchandised automotive fasteners and replacement parts was shown by Warehouse Distributors and Jobbers. To service the growing number of vehicles on the Canadian market using metric dimension bolts and screws, we added the most popular metric sizes to our line. This will provide us with certain expertise when "Metrication" occurs in Canada. We made a range of automotive fasteners available in "Pic-A-Pac" plastic packages to serve the growing "walk-in" business being handled by our automotive jobber customers.

Industrial and hardware distributors

Service was the key to our growth in this market as these customers require almost immediate and complete delivery from stock. The Company participates in the annual Canadian Hardware and Housewares Show as well as many regional and dealer shows. We believe this co-operation with our distributors contributes directly to the sales of "Pic-A-Pic" fasteners and our merchandised lines.

Fluid system components

Sales to fittings distributors in the plumbing, heating, propane gas and industrial markets grew favourably in 1972. New products introduced were Micro-Barb fittings and a line of polyethylene and nylon tubing. This division participated in the Canadian Government display at the Automechanika '72 in Frankfurt, Germany.

Original equipment manufacturers

Demand from automotive vehicle manufacturers and their suppliers continued strong in 1972 and forecasts for the next model year are optimistic. Sales also increased to manufacturers of appliances, electrical, recreational and building products.

Outlook

Our Construction Fasteners have now been market tested and accepted in the residential building field. We are enlarging our Stainless Fastener operations to meet the increasing need for these products. Because of currency revaluation and heavy domestic demand, the volume of fasteners imported into North America has been reduced. This has greatly increased Canadian market requirements and has enabled us to produce products that were previously uneconomic. In summary, the Company is confident of a continuance of the market gains realized in 1972.



H. Paulin & Co., Limited and its wholly-owned subsidiaries
(Incorporated under the Laws of Ontario)

Consolidated balance sheet • December 31, 1972 (with comparative)

	ASSETS	
	1972	1971
Current		
Cash	\$ 32,241	\$ —
Accounts receivable	1,599,848	1,323,224
Inventory at the lower of cost and net realizable value	3,084,093	3,042,498
Sundry assets and prepaid expenses	60,175	49,899
	<u>4,776,357</u>	<u>4,415,621</u>
Plant equipment, office fixtures, vehicles and leasehold improvements at cost less accumulated depreciation and amortization of \$1,026,782 (1971 ; \$911,207)	775,000	691,504
	<u>\$5,551,357</u>	<u>\$5,107,125</u>

On behalf of the Board

Arthur Paulin
Director

Stanley F. Paulin
Director

figures for 1971)

LIABILITIES		1972	1971
		<u>1972</u>	<u>1971</u>
Current			
Bank indebtedness—secured		\$ —	\$ 622,506
Accounts payable and accrued liabilities		784,502	892,314
Income taxes		208,178	67,110
Current portion of loans		<u>—</u>	<u>100,200</u>
		992,680	1,682,130
Deferred income taxes		133,843	84,843
Loans payable		<u>—</u>	<u>158,863</u>
		<u>1,126,523</u>	<u>1,925,836</u>

SHAREHOLDERS' EQUITY			
Capital stock (Note 2)			
Common shares			
Authorized—2,000,000 common shares without par value			
Issued and fully paid—1,050,000 shares (1971 ; 900,000 shares)		<u>1,016,188</u>	<u>426,500</u>
Surplus			
Excess of net book value of shares in subsidiary companies at date of acquisition over the cost thereof		12,627	12,627
Retained earnings		3,396,019	2,742,162
		3,408,646	2,754,789
		<u>4,424,834</u>	<u>3,181,289</u>
		<u>\$5,551,357</u>	<u>\$5,107,125</u>



H. Paulin & Co., Limited and its wholly-owned subsidiaries

Consolidated statement of income and retained earnings

for the year ended December 31, 1972

(with comparative figures for 1971)

	<u>1972</u>	<u>1971</u>
Sales	<u>\$10,236,510</u>	<u>\$8,851,867</u>
Income from operations before the following charges	<u>\$ 1,412,328</u>	<u>\$1,052,955</u>
Depreciation and amortization	<u>132,471</u>	<u>118,316</u>
Interest on long-term debt	<u>—</u>	<u>26,096</u>
	<u>132,471</u>	<u>144,412</u>
Income from operations	<u>1,279,857</u>	<u>908,543</u>
Taxes on income	<u>626,000</u>	<u>455,000</u>
Net income	<u>653,857</u>	<u>453,543</u>
Retained earnings, January 1	<u>2,742,162</u>	<u>2,288,619</u>
Retained earnings, December 31	<u>\$ 3,396,019</u>	<u>\$2,742,162</u>
Earnings per share based on 1,050,000 shares (1971 ; 900,000)	<u>\$.62</u>	<u>\$.50</u>

Consolidated statement of source and application of funds

for the year ended December 31, 1972
(with comparative figures for 1971)

	1972	1971
Source of funds		
From operations		
Net income	\$ 653,857	\$ 453,543
Charges not requiring an outlay of funds		
Depreciation and amortization	132,471	118,316
Deferred taxes	49,000	28,000
	835,328	599,859
Proceeds on issuance of shares	589,688	—
	1,425,016	599,859
Application of funds		
Acquisition of fixed assets—net	215,967	223,668
Reduction in loans—net	158,863	74,388
	374,830	298,056
Increase in working capital	1,050,186	301,803
Working capital, January 1	2,733,491	2,431,688
Working capital, December 31	\$3,783,677	\$2,733,491



H. Paulin & Co., Limited and its wholly-owned subsidiaries

Notes to the consolidated financial statements • December 31, 1972

1. Principles of Consolidation. The consolidated financial statements include the accounts of H. Paulin & Co., Limited and all its subsidiaries.
2. Capital Stock. (a) Pursuant to an agreement with underwriters, dated May 31, 1972, 150,000 common shares without par value of the Company were issued for \$589,688 cash.
(b) The Company established a Share Purchase Plan during the year. Under the Plan, as at December 31, 1972, 22,735 shares were allotted to employees at \$4.25 per share. The purchase price for these shares is paid on an instalment basis by payroll deductions and no shares are issued prior to payment in full.
Under a proposed Stock Option Plan, 27,265 shares were reserved in 1972. No options were granted in 1972.
3. Remuneration of directors and senior officers of the Company for the year ended December 31, 1972 was \$173,967 (1971 ; \$167,170).
4. Lease Obligations. Annual rentals payable under long-term leases in effect as at December 31, 1972 payable by the Company are approximately as follows:

1973	\$114,000
1974	20,000
1975	13,000
1976	7,000

The Company has an option to renew the leases for 55 Milne Avenue for a fifteen year period commencing January 1, 1974 at an annual rental payment of \$100,440 on a net basis.

Auditors' report

The Shareholders,
H. Paulin & Co., Limited.

We have examined the consolidated balance sheet of H. Paulin & Co., Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and applications of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

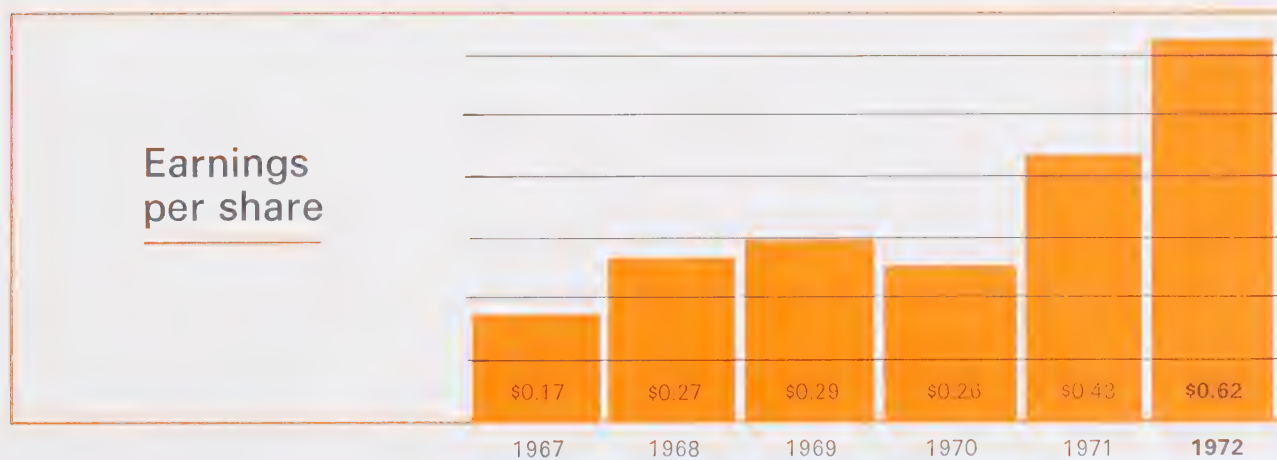
Toronto, Ontario,
March 19, 1973.

Touche Ross & Co.
Chartered Accountants

Six year statistical summary • Years ending December 31, 1967 – 1972

	1967	1968	1969	1970	1971	1972
Sales (\$000's)	6,040	6,607	8,046	8,272	8,852	10,237
Operating Profit (\$000's)	469	680	773	685	1,053	1,412
Operating Profit – % of Sales	7.8	10.3	9.6	8.3	11.9	13.8
Depreciation (\$000's)	78	84	94	96	118	132
Income Taxes (\$000's)	214	311	371	306	455	626
Net Profit (\$000's)	178	285	308	276	454	654
Earnings per Share * \$	0.17	0.27	0.29	0.26	0.43	0.62
Total Assets (\$000's)	2,642	3,700	4,800	5,200	5,100	5,500
Additions to Fixed Assets (\$000's)	12	101	193	260	223	216
Working Capital (\$000's)	1,412	1,941	2,156	2,432	2,733	3,784
Shareholders' Equity (\$000's)	1,892	2,153	2,452	2,728	3,181	4,424
Return on Equity %	10.9	13.3	12.6	10.1	14.3	14.8

*Based on 1,050,000 shares outstanding as at December 31, 1972.



Corporate identity

The logo for Paulin, featuring the word "paulin" in a bold, lowercase, sans-serif font. The letters are orange with a thick black outline. A horizontal line is positioned below the letters.

This new corporate logo was designed as part of our program of consolidating our various divisions. We believe it will also help in the recognition of our company by our customers, shareholders, the financial community and the public. This dynamic visual image will gradually appear on our buildings, vehicles, trade show displays, catalogues, literature, stationery, etc.



Of course, our familiar trademarks will continue to be used on their appropriate products. "Papco" designates our merchandised lines of fasteners and fittings.

The CMI logo, featuring the letters "CMI" in a bold, stylized, sans-serif font. The letters are orange with a thick black outline. A registered trademark symbol (®) is located to the right of the logo.

The Capital Metal Industries Limited trademark appears on custom made stampings and cold forged products.

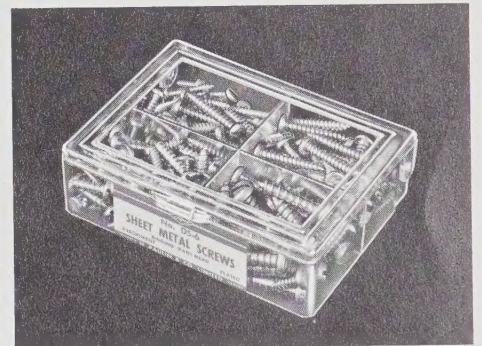
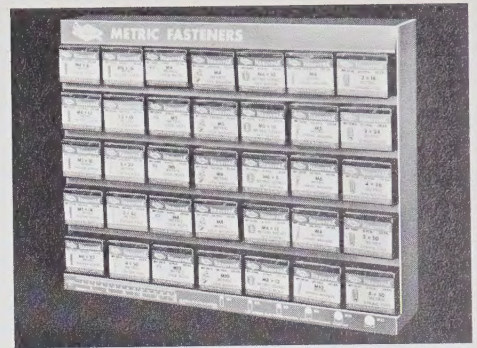
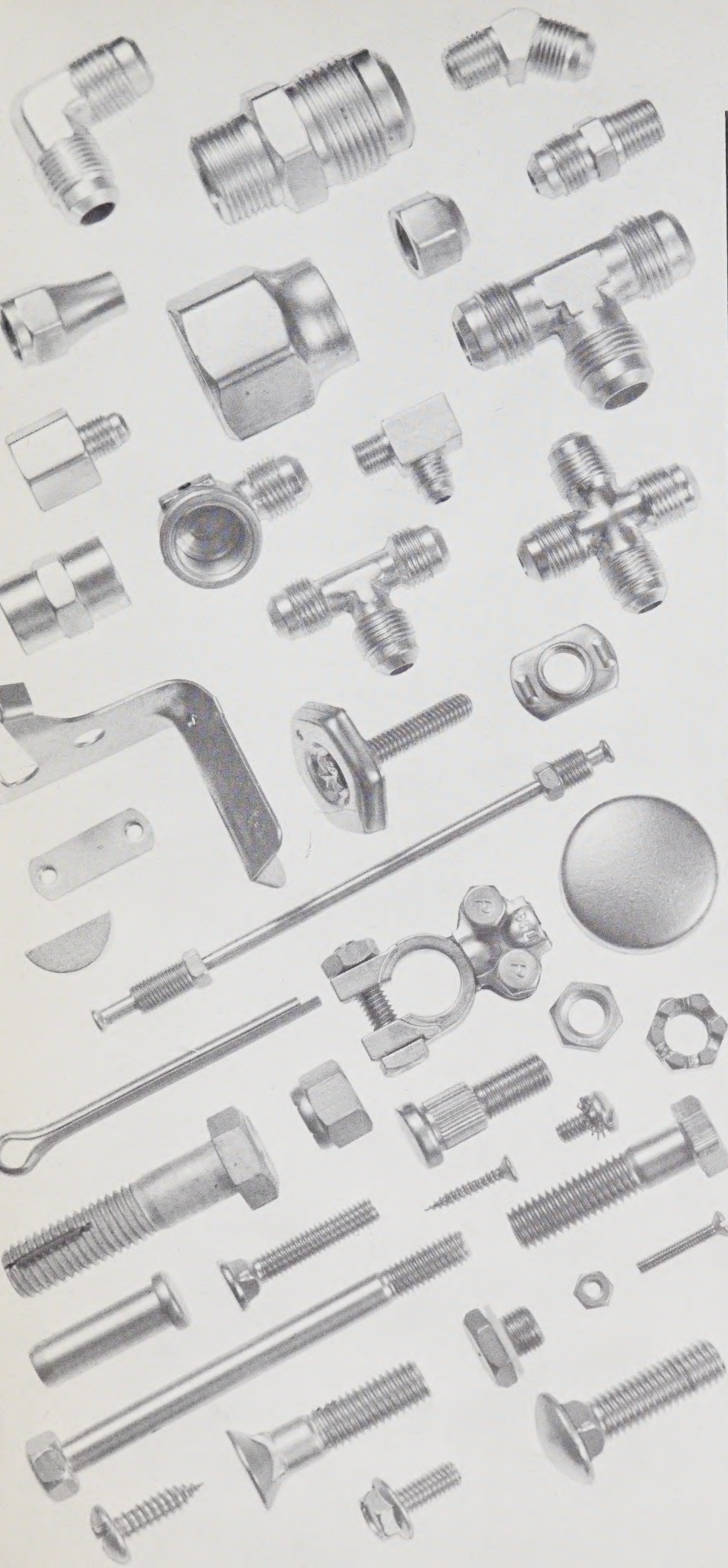
The Pic-A-Pac logo, featuring the words "PIC-A-PAC" in a bold, stylized, sans-serif font. The letters are orange with a thick black outline. A registered trademark symbol (®) is located to the right of the logo.

Those fasteners and hardware items pre-packaged for retail sale carry this mark.

In addition, these registered trademarks are used by the Company:

EASY-SPOT – weld fasteners. HOT-LOK – locking fasteners. LONG-LOK – locking fasteners. MET-A-PAK – cabinet system. MICRO-BARB – tube fittings. PAPCOLLOY – high strength bolts and nuts. POZIDRIV – screws. POZI-LOK – lock nuts. SHELF-PAK 5 – shelf tray. SPEE-DRILL – screws. TENSILOCK – locking screws. TRI-LOK – lock nuts.

On opposite page photos show a selection of standard and custom fasteners and fittings, together with some popular "Papco" merchandising aids.



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H. PAULIN & CO. LIMITED

INTERIM REPORT TO SHAREHOLDERS

SIX MONTHS ENDED JUNE 30, 1972

TO OUR SHAREHOLDERS:

This is our first Financial Report since the Company offered its shares to the public in June, 1972.

We are pleased to advise that the after-tax profit for the six months ended June 30, 1972 was \$290,422 or 28 cents per common share. Comparative figures for the same period of 1971 are not available because as a private company such figures were not required and were not prepared.

Sales volume at \$5,280,236 is running over 15% ahead of 1971 and we are confident that both sales and profits will be at record levels for 1972.

Because of increased demand for the company's products, we plan to start construction immediately of a 16,000 square foot addition to the plant in Scarborough. Also new "high speed" cold headers for screw production are scheduled for early Fall delivery and should contribute to increased output in the latter part of the year.

On July 26, 1972 the shares of the Company were listed for trading on the Toronto Stock Exchange.

August 8, 1972

ARTHUR PAULIN
President

H. PAULIN & CO. LIMITED

CONSOLIDATED STATEMENT OF INCOME (Unaudited)

Six Months Ended June 30, 1972

Sales	\$ 5,280,236
Income from Operations before undernoted	628,490
Depreciation and Amortization	55,754
Interest on Long Term Indebtedness	8,809
	<u>64,563</u>
Income from Operations	563,927
Taxes on Income	<u>273,505</u>
Net Income	\$ 290,422
Earnings per share (1,050,000 shares)	<u>28¢</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS (Unaudited)

Six Months Ended June 30, 1972

Source of Funds:		
From Operations		
Net Income for period	\$ 290,422	
Add Depreciation	<u>55,754</u>	\$ 346,176
Issue of 150,000 Shares		<u>589,688</u>
		\$ 935,864
Application of Funds:		
Addition to Fixed Assets		61,030
Repayment of Long Term Debt		219,120
Financing and Issue Expenses		<u>21,452</u>
		301,602
Increase in Working Capital		<u>634,262</u>
		\$ 935,864

Note: No comparable figures for the preceding year are available. The Company first issued its shares to the public in June, 1972.